

Exhibit B

In The Matter Of:
Securities and Exchange Commission v.
Lek Securities Corporation, et al.

Nathan Fayyer
February 15, 2018

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1 groups that were using these strategies that
2 are -- or execution tactics that are referred to
3 by you, by the SEC or other -- I guess other
4 people as -- as layering.
5 **Q So your testimony is that you thought of**
6 **layering as simply trading on both sides of the**
7 **market?**
8 A That's correct, ma'am. I don't -- I'm
9 not a trader. I don't have substantial knowledge
10 of strategies or anything like that. I -- I
11 run -- I ran operations for Avalon. So I -- I'm
12 an operations person.
13 **Q Well, you actually ran Avalon, correct?**
14 A That's correct.
15 **Q And Avalon is a trading firm.**
16 A That's correct.
17 **Q And you recruited traders to trade**
18 **through Avalon.**
19 A All kinds of traders, that is correct.
20 **Q And to trade in the U.S. securities**
21 **markets through Avalon, correct?**
22 A That is correct, yes, ma'am.
23 **Q And to trade through Avalon's account at**
24 **a U.S. broker/dealer, correct?**
25 A That is correct. However, I was, you

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1 know, not the only person that recruited traders.
2 **Q Who else recruited traders?**
3 A Well, I mostly spoke to group leaders,
4 so people that wanted to come on board, they had
5 their own groups. Excuse me. They -- I rarely
6 spoke to any individual traders unless, for
7 example, I've seen them and they would come in to
8 the Kiev office. So I would usually just deal
9 with somebody that would be interested, telling me
10 that he has a group or she telling me that they
11 have a group of traders, and that they want to
12 trade through Avalon.
13 **Q And do you see in the next paragraph at**
14 **the very end after you say you can help with**
15 **setting up accounts for layering, you also say:**
16 **"I am one of the very few places that still allow**
17 **layering."**
18 **Do you see that?**
19 **MR. WINES:** Objection. Hold on.
20 Where -- where does it say that? I'm sorry.
21 **MS. CHOE:** At the end of the fourth
22 paragraph: "I am one of the very few places that
23 still allow layering."
24 **BY MS. CHOE:**
25 **Q Do you see that?**

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1 A Yes, ma'am, I see that.
2 **Q And why were you one of the very few**
3 **places that still allowed layering?**
4 **MR. DOLLAR:** Object to form.
5 **THE WITNESS:** Because as far as I was
6 aware, a lot of people, they spoke about each
7 other in the business, different trading groups
8 and group leaders, I know that different brokers
9 didn't -- they didn't want to deal with, I would
10 say, the headache or I guess the nuisance of
11 answering any inquiries from the regulators.
12 And as far as us having an account with
13 Lek, that -- that wasn't the case. Because
14 speaking with Sam, Sam Lek, for example, while you
15 know he knew that the regulators were looking at
16 certain strategies, not only this -- what you guys
17 call layering, he didn't agree with that. He
18 didn't, you know, believe that there is anything
19 amiss here. And nobody told me otherwise, as far
20 as I know. So we were able to pretty much house,
21 I would say, traders who used different trading
22 strategies and execution tactics.
23 **BY MS. CHOE:**
24 **Q So you --**
25 **MR. DOLLAR:** Objection to the

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1 responsiveness of the answer after "that wasn't
2 the case."
3 **BY MS. CHOE:**
4 **Q So you -- you knew that there was**
5 **regulator concern about the behavior known as**
6 **layering?**
7 A Some -- some, yes.
8 **Q And you knew that other trading firms**
9 **did not allow layering.**
10 A No, I didn't know that for a fact. I
11 knew that they weren't too -- that they weren't
12 looking too kindly at that as far as housing
13 traders who used certain strategies, but I do know
14 that there were definitely other brokers and firms
15 out there that -- that allow different strategies
16 of the sort to be going on.
17 **Q Other brokers besides Lek --**
18 A That's correct.
19 **Q -- did not allow layering?**
20 A I'm sorry?
21 **Q Did not allow layering.**
22 **MR. DOLLAR:** Objection.
23 **THE WITNESS:** No, no, no. I'm saying --
24 I'm saying that I knew from word of -- word of
25 mouth from speaking to other groups and just

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1 **MR. WINES:** Objection.
2 **THE WITNESS:** Again, this is just me
3 speculating. I'm kind of just, you know, talking
4 to him. I know that some firms did allow this.
5 Some firms didn't allow this because there was a
6 lot of inquiries that would come in. But from
7 what I know, it's -- you know, it's not cut and
8 dry whether you can do something or you can't.
9 Legal expenses, because a lot of times
10 when an inquiry was received by Lek -- by Lek
11 Securities, a lot of the legal expenses, they
12 would pass on to Avalon for these inquiries for
13 handling these inquiries since, you know, they
14 were the broker for the account.
15 **BY MS. CHOE:**
16 **Q** So these were legal expenses associated
17 with regulator inquiries?
18 **MR. DOLLAR:** Objection.
19 **THE WITNESS:** Could have been those were
20 you know, one type of legal expenses. You know,
21 I'm sure there were other things.
22 **BY MS. CHOE:**
23 **Q** So you understood that regulators were
24 concerned about this activity called "layering"?
25 **MR. DOLLAR:** Objection.

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1 **MR. WINES:** Objection.
2 **THE WITNESS:** I understood that it was
3 being looked at. But I -- I had numerous
4 conversations with Sam Lek, and Sam said just
5 because there's inquiries, you know, into certain
6 things, it doesn't make it -- doesn't make
7 something bad. So there were inquiries into other
8 strategies or things as well on a daily basis
9 pretty much.
10 **MR. DOLLAR:** Objection. Nonresponsive.
11 (SEC Exhibit No. 182 was marked
12 for identification.)
13 **BY MS. CHOE:**
14 **Q** I'm going to show you what's been marked
15 as Exhibit 182. Do you recognize this document?
16 A No, ma'am. I'm not even sure, was it
17 written --
18 **Q** Do you see that you're one of the
19 recipients at the NoosF1 e-mail address?
20 A I do.
21 **Q** And do you see that it concerns Avalon
22 traders in the Q6 layering --
23 **MR. WINES:** Have you -- have you
24 finished reading this?
25 **THE WITNESS:** Not -- not yet.

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1 **MR. WINES:** Why don't you give him a
2 chance to read it before he starts answering
3 questions about it. I'm sorry. I know you're in
4 a -- in a rhythm, but I just want to make sure
5 that he gets the chance.
6 **THE WITNESS:** (Peruses document.) Okay,
7 I've read the document.
8 **BY MS. CHOE:**
9 **Q** Did you read the second page or third
10 page?
11 A Oh, I'm sorry, no.
12 **Q** As an attachment.
13 A No.
14 **MR. WINES:** Thank you, Olivia.
15 **THE WITNESS:** (Peruses document.) Okay.
16 **BY MS. CHOE:**
17 **Q** Do you recall receiving this e-mail and
18 memo?
19 A No, I don't.
20 **Q** Do you recall Lek informing you that it
21 was instituting this Q6 layering detection?
22 A Yes, ma'am.
23 **Q** Do you think you read this e-mail when
24 you received it?
25 A This one, no. But I've spoken to

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1 Nicolas Louis, who explained to me verbally a lot
2 of things that were in this attachment.
3 **Q** So you spoke with Mr. Louis, who is a
4 Lek officer --
5 A Yes.
6 **Q** -- about the substance that's in the
7 memo?
8 A Yes.
9 **Q** Is that fair to say?
10 **MR. DOLLAR:** Objection.
11 **THE WITNESS:** It wasn't, you know,
12 specifically, let's say, this day or, I guess, at
13 the time of this e-mail. It was one of the times
14 I visited Lek or could have spoken to him on the
15 phone actually, and he told me about what's going
16 on.
17 **BY MS. CHOE:**
18 **Q** And the first paragraph refers to --
19 **MR. WINES:** I guess, can we get on the
20 record "yes" or "no," did -- contemporaneously do
21 you recall seeing this memo?
22 **THE WITNESS:** I don't recall seeing this
23 memo. I just don't remember seeing this memo,
24 period. So the only thing I remember is
25 discussing what I've just read with Mr. Louis.

<p style="text-align: right;">Page 301</p> <p>1 BY MS. CHOE: 2 Q And at the time that the strategy came 3 to Avalon, you understood that it involved both 4 equities and options, right? 5 A Not at the beginning, absolutely not. 6 Again, I have no idea of how these things were 7 going to work, you know, at all. But... 8 Q Well, can you turn to Exhibit 143. 9 That's the first testimony, the bound one. At 10 page 288. 11 A Okay. 288? 12 Q Yes. And do you see starting at the 13 line of end of line 3, it says -- 14 MR. WINES: Olivia, let me have him read 15 the question and then the entire answer. 16 The question is on 287, and then read 17 the question and the entire answer, and then I 18 assume Olivia will have some questions for you. 19 THE WITNESS: (Peruses document.) Okay, 20 I read all the way up to the top of page 289. 21 BY MS. CHOE: 22 Q And do you see at the top of 283 at 23 line 3 where you said: "He told me this from the 24 very beginning, that they were going to trade 25 options and they're going to trade stock at the</p>	<p style="text-align: right;">Page 303</p> <p>1 MR. WINES: Objection. 2 MR. DOLLAR: Objection. 3 BY MS. CHOE: 4 Q Is that right? 5 A No, I wouldn't say that right -- that's 6 right, specifically because once Dmitri started 7 going into the strategy, he lost me completely, 8 because I don't -- I don't even know a lot of 9 terms. He started using words: Puts, naked puts, 10 calls. I mean, I don't -- I don't even know if I 11 can be quoted on that. I'm just kind of reciting 12 some things that I remember. 13 And I told him, I have no idea about 14 this. I definitely need to speak to either Sam or 15 Serge, people who are versed in this, and I need 16 to get some sort of clarity what we can do, you 17 know, what's going to happen, and how this is 18 going to work. 19 Q Did you speak to Serge about the 20 strategy? 21 MR. DOLLAR: Objection. 22 THE WITNESS: I did not speak to Serge 23 about the strategy as far as in detail. I told 24 him there was interest from one of the guys, that 25 they have a group in Russia. I don't recall -- I</p>
<p style="text-align: right;">Page 302</p> <p>1 same time." 2 A Yes, I see that. 3 Q So did you know at the time that the 4 strategy came to you that it involved trading 5 stock and options at the same time? 6 MR. DOLLAR: Objection. 7 THE WITNESS: Eventually, yes. I think 8 we got cut off a little bit. So, first, when 9 Dmitri wanted to come on board, he just told me 10 about a strategy that they wanted to use. They 11 had their own strategy that they, I guess, made 12 up. It was their secret. It was their component. 13 And afterwards, after I started asking 14 him, you know, What's going on? What are you 15 going to need as far as technology? What are you 16 going to trade? He told me that he needs two 17 components, he needs options and stocks in order 18 to trade the strategy at the same time. And he 19 asked me if -- if Lek had the ability to do 20 options. 21 BY MS. CHOE: 22 Q And you understood that the traders 23 expected to lose money on one side and make money 24 on the other. By "side," I mean lose money on the 25 equities and make money on the options.</p>	<p style="text-align: right;">Page 304</p> <p>1 think they had a couple of offices in Moscow and 2 St. Petersburg, and that they were interested in 3 doing options, trading options. And that they 4 needed to trade equities at the same time. 5 Pretty much what I got from Dmitri, I 6 kind of went to Serge, and I said, We kind of need 7 to get some more information. And if I recall 8 correctly, either I went to talk to Sam or we 9 either -- or maybe I was in the office, we talked 10 to Sam to kind of fill him in on the -- what's 11 going on. Because Sam, from what I knew, was an 12 options trader from '70s or '80s, or something 13 like that. So -- 14 BY MS. CHOE: 15 Q Did Mr. -- oh, I'm sorry. 16 Did Mr. Pustelnik understand the 17 strategy, to your knowledge? 18 MR. DOLLAR: Objection. 19 THE WITNESS: I -- I can't speak for 20 Mr. Pustelnik, but I know Serge knows what options 21 are. He's -- he knows trading, so he can 22 definitely -- you know, I don't think that it's 23 something that he can't grasp or understand. 24 BY MS. CHOE: 25 Q So if you testified that one of the</p>

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1 they need to be able to send orders very quickly.
2 But as far as the detail of why, I don't really
3 understand because it's, you know, a lot of
4 technology that concerns it.
5 **BY MS. CHOE:**
6 **Q Did you understand that the strategy**
7 **involved using equities trades to cause price**
8 **movements?**
9 **MR. DOLLAR:** Objection.
10 **THE WITNESS:** No, I -- I can't say I'm
11 that in-depth knowledgeable or versed in how it
12 worked. I mean, yes, I understand that it needs
13 two components. You need to do something -- trade
14 a stock and trade an option either at the same
15 time or very close together.
16 **BY MS. CHOE:**
17 **Q So you understood --**
18 **A That's -- that's what I've seen.**
19 **Q Sorry. You understood that the stocks**
20 **and options needed to be traded close in time to**
21 **one another.**
22 **A From what Dimitri --**
23 **MR. DOLLAR:** Objection.
24 **THE WITNESS:** From what Dimitri has told
25 me and from what I have seen later or looking at

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1 their positions, yes.
2 **BY MS. CHOE:**
3 **Q And were you aware that regulators**
4 **started making inquiries about the option strategy**
5 **soon after it started trading through Avalon?**
6 **A No --**
7 **MR. DOLLAR:** Objection.
8 **THE WITNESS:** -- I wasn't aware of that.
9 I was, however, aware that certain market makers,
10 from what I understood, people that were accepting
11 these orders started, I don't know, I guess crying
12 to Sam or to whomever that there was something
13 they didn't like, and in one of my meetings in
14 talking with Sam, he told me about this. But I
15 don't recall anything, you know, at first with the
16 regulators. Not that I recall.
17 **BY MS. CHOE:**
18 **Q I'm going to show you -- after you**
19 **learned that there were inquiries, did you do**
20 **anything to look into the trading further?**
21 **A No, the only thing I did was I spoke**
22 **to -- to Mr. Lek. One of my visits we spoke just**
23 **briefly, and he actually said it was a very good**
24 **strategy. It was pretty smart.**
25 **Q Did you -- did you communicate with any**

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1 **of the 038 traders about strategy?**
2 **MR. WINES:** Did you finish your answer?
3 **THE WITNESS:** Yeah, I guess. I just
4 wanted to say that I spoke to Sam.
5 **MR. WINES:** Just be careful, Olivia. I
6 interrupt people all the time. I just interrupted
7 him right now. But I thought he was still going.
8 **THE WITNESS:** No, that's fine.
9 **BY MS. CHOE:**
10 **Q Do you want me to repeat the question?**
11 **A Yeah, please.**
12 **Q Did -- actually, now I don't remember my**
13 **question.**
14 **MR. WINES:** Sorry, Olivia. You want to
15 look at the --
16 **BY MS. CHOE:**
17 **Q Did you communicate with any of the 038**
18 **traders about the strategy after learning that**
19 **there were regulatory inquiries?**
20 **MR. DOLLAR:** Objection.
21 **THE WITNESS:** Not that I recall. Not
22 that I recall. And again, I didn't -- I don't
23 remember at all finding out about inquiries from
24 the regulators. The only thing I remember is Sam
25 said that people that were accepting these

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1 orders -- market makers, I guess, if you call
2 them -- they were -- they didn't like what was
3 going on, so they were kind of complaining, maybe
4 to him directly or to the Exchange. I don't know.
5 I mean, all of that flew -- flowed through Lek
6 Securities, and I only got some answers when I
7 spoke to Sam just during regular conversation.
8 **BY MS. CHOE:**
9 **Q But you didn't try to speak to your own**
10 **traders about the -- the questions raised by**
11 **regulators?**
12 **MR. DOLLAR:** Objection.
13 **MR. WINES:** Objection. He just said --
14 now repeat twice -- that he didn't have any
15 information about any concern by regulators. All
16 right. So you can't take that answer and then ask
17 him the same question and build in something that
18 you -- he just said didn't happen. Okay.
19 **MS. CHOE:** No, he said --
20 **MR. WINES:** He said he --
21 **MS. CHOE:** -- he learned from Mr. Lek.
22 **MR. WINES:** No -- yeah, he said he heard
23 from Mr. Lek, and you can read it back, but he
24 said he heard from Mr. Lek that the market makers,
25 the counterparties were complaining. Not that he

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1 Q Okay. And did Mr. Louie -- Mr. Louis
2 draft any portion of Exhibit 216?
3 A No, not at all.
4 Q You can put that one aside, Mr. Fayer.
5 I want you to pick up -- should be in
6 front of you, exhibit -- SEC Exhibit 258. 258.
7 A Yes, I see that.
8 Q Okay. And again, I just want to make
9 sure we have a clear record, Mr. Fayer.
10 I'll wait for your counsel to grab it.
11 MR. DOLLAR: It's this letter, guys.
12 MR. WINES: Oh, okay. If you guys
13 can --
14 MR. DOLLAR: You know what I'm talking
15 about?
16 MR. WINES: I do. Go ahead.
17 BY MR. DOLLAR:
18 Q All right. So, Mr. Fayer, I want to
19 make sure you've got the letter in front of you,
20 Exhibit 258, correct?
21 A Yes.
22 Q Okay. Did Sam Lek help you write any
23 portion of this letter?
24 A Not that I recall.
25 Q Okay. Do you have a specific

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1 recollection that he helped write a portion of
2 this letter?
3 A No, not that I recall.
4 Q Do you have a general recollection that
5 he helped you write a portion of this letter?
6 A Not that I recall.
7 Q Okay. Did Nicolas Louis write any
8 portion of this letter?
9 A Not that I recall.
10 Q Did Sam Lek ever communicate to you that
11 Avalon's traders could engage in manipulative
12 trading?
13 A Not that I recall.
14 Q Did Sam Lek ever communicate to you that
15 he would allow Avalon's traders to engage in
16 manipulative trading?
17 A No, I don't think we used any of those
18 words or spoke about any of this.
19 Q Did he give you any hint that he might
20 allow manipulative trading at some point?
21 A Not that I recall. Not that I know of.
22 Q Did he use any words that you would
23 taken to mean that it would have been okay to
24 engage in manipulative trading using the Avalon
25 account?

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1 A No. Sam and I, you know, never spoke
2 about, you know, allowing any manipulative
3 trading.
4 Q In fact, Sam told you that the Q6
5 controls would in fact catch manipulative trading
6 that the regulators had expressed a concern about,
7 correct?
8 A Not in those exact words, but he said
9 they should have -- that the entire Q6 system was,
10 I believe, designed by Nicolas specifically to --
11 to help alleviate any -- any inquiries or any
12 concerns that the regulators may have had. So he
13 wanted controls in place.
14 Q Okay. And those controls in place would
15 prevent trades from going through. Correct,
16 Mr. Fayer?
17 A Somewhat, yes.
18 Q And you knew that because some of your
19 traders complained to you about trades being
20 stopped before they were executed, correct?
21 A That is correct, yes.
22 Q And in fact, you got numerous complaints
23 about this, correct?
24 A That is correct, yes.
25 Q Okay. Ballpark, do you know how many

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1 complaints were -- or, excuse me, trades that were
2 stopped by Q6 at Avalon?
3 A Not that I know of. But it's happened
4 quite often that there were complaints. Some
5 trades weren't going through. Some trades weren't
6 being executed. So I guess while they were
7 tweaking the system, you know, it was doing -- you
8 know, it was working somewhat, and, I guess,
9 according to parameters that Nicolas or whomever
10 designed.
11 Q Do you know how many of Avalon's
12 traders' trades were blocked by Q6 layering
13 controls?
14 A I -- I don't know. I'm sure that's
15 something that Lek has.
16 Q Did Sam Lek ever tell you how Avalon's
17 traders could circumvent the Q6 layering controls?
18 A No. I don't think so. Not that I
19 recall anything like this.
20 MR. DOLLAR: We're going to pass the
21 witness.
22 FURTHER EXAMINATION BY COUNSEL FOR
23 THE PLAINTIFF
24 BY MS. CHOE:
25 Q Did Sam Lek ever convey to you that he